Harmony Wealth Strategies
Bill McAllister, Jr., CLU®
22 Morgan Farms Drive, Suite 4
South Windsor, CT 06074
860-836-9314
Bill@HarmonyWealthStrategies.com
www.HarmonyWealthStrategies.com

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Required Minimum Distributions (RMDs)

What Are Required Minimum Distributions (RMDs)?

Required minimum distributions, often referred to as RMDs or minimum required distributions, are amounts that the federal government requires you to withdraw annually from traditional IRAs and employer-sponsored retirement plans after you reach age 72 (or, in some cases, after you retire). You can always withdraw more than the minimum amount from your IRA or plan in any year, but if you withdraw less than the required minimum, you will be subject to a federal penalty.

Note: *The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in late 2019 raised the RMD age from 70½ to 72, effective January 1, 2020. Anyone who turns 72 before July 1, 2021, (and therefore reached age 70½ before 2020), will need to take an RMD by December 31, 2021.*

The RMD rules are calculated to spread out the distribution of your entire interest in an IRA or plan account over your lifetime. The purpose of the RMD rules is to ensure that people don't just accumulate retirement accounts, defer taxation, and leave these retirement funds as an inheritance. Instead, required minimum distributions generally have the effect of producing taxable income during your lifetime.

Which Retirement Savings Vehicles Are Subject to the RMD Rules?

In addition to traditional IRAs, simplified employee pension (SEP) IRAs and SIMPLE IRAs are subject to the RMD rules. Roth IRAs, however, are not subject to these rules while you are alive. Although you are not required to take any distributions from your Roth IRAs during your lifetime, your beneficiary(ies) will generally be required to take distributions from the Roth IRA after your death.

Employer-sponsored retirement plans that are subject to the RMD rules include qualified pension plans, qualified stock bonus plans, and qualified profit-sharing plans, including 401(k) plans. Section 457(b) plans and Section 403(b) plans are also generally subject to these rules. If you are uncertain whether the RMD rules apply to your employer-sponsored plan, you should consult your plan administrator or a tax professional.

When Must RMDs Be Taken?

Your first required distribution from an IRA or retirement plan is for the year you reach age 72. However, you have some flexibility as to when you actually have to take this first-year distribution. You can take it during the year you reach age 72, or you can delay it until April 1 of the following year.

Note: *The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in late 2019 raised the RMD age from 70½ to 72, effective January 1, 2020. Anyone who turns 72 before July 1, 2021, (and therefore reached age 70½ before 2020), will need to take an RMD by December 31, 2021.*

Since this first distribution generally must be taken no later than April 1 following the year you reach age 72, this April 1 date is known as your required beginning date. Required distributions for subsequent years must be taken no later than December 31 of each calendar year until you die or your balance is reduced to zero. This means that if you opt to delay your first distribution until April 1 of the following year, you will be required to take two distributions during that year — your first year's required distribution and your second year's required distribution.

Example: *You have a traditional IRA and you will reach age 72 on or after July 1, 2021. You can take your first RMD during 2021, or you can delay it until April 1, 2022. If you choose to delay your first distribution until 2022, you will have to take two required distributions during 2022 — one for 2021 and one for 2022. This is because your required distribution for 2022 cannot be delayed until the following year.*

There is one situation in which your required beginning date can be later than described above. If you continue working past age 72 and are still participating in your employer's retirement plan, your required beginning date under the plan of your current employer can be as late as April 1 following the calendar

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year in which you retire (if the retirement plan allows this and you own 5% or less of the company). Again, subsequent distributions must be taken no later than December 31 of each calendar year.

Examples: *You own more than 5% of your employer's company and you are still working at the company. You will reach age 72 on or after July 1, 2021, so you must take your first RMD from your current employer's plan by April 1, 2022 — even if you're still working for the company at that time.*

You participate in two plans — one with your current employer and one with your former employer. You own less than 5% of each company. You will reach age 72 on December 2, 2021, but you'll keep working until you turn 74 on December 2, 2023. You can delay your first RMD from your current employer's plan until April 1, 2024 — the April 1 following the calendar year in which you retire. However, you must take your first distribution (for 2021) from your former employer's plan no later than April 1, 2022 — the April 1 after reaching age 72.

How Are RMDs Calculated?

RMDs are generally calculated by dividing your traditional IRA or retirement plan account balance by a life expectancy factor specified in IRS tables. Your account balance is usually calculated as of December 31 of the year preceding the calendar year for which the distribution is required to be made.

Example(s): *You have a traditional IRA, and you will reach age 72 on or after July 1, 2021. Your first RMD must be taken no later than April 1, 2022. In calculating this RMD, you must use the total value of your IRA as of December 31, 2020.*

Note: *The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in late 2019 raised the RMD age from 70½ to 72, effective January 1, 2020. Anyone who turns 72 before July 1, 2021, (and therefore reached age 70½ before 2020), will need to take an RMD by December 31, 2021. The rules for calculating the RMD amount are the same.*

Caution: *When calculating the RMD amount for your second distribution year (in this example, 2022), you base the calculation on the IRA or plan balance as of December 31 of the first distribution year (the year you reached age 72 — in this example, 2021) regardless of whether or not you waited until April 1 of the following year to take your first required distribution.*

For most taxpayers, calculating RMDs is straightforward. For each calendar year, simply divide your account balance as of December 31 of the prior year by your distribution period, determined under the Uniform Lifetime Table using your attained age in that calendar year. This life expectancy table is based on the assumption that you have designated a beneficiary who is exactly 10 years younger than you are. Every IRA owner's and plan participant's calculation is based on the same assumption.

There is one exception to the procedure described above — the younger spouse rule. If your sole designated beneficiary is your spouse, and he or she is more than 10 years younger than you, the calculation of your RMDs may be based on the longer joint and survivor life expectancy of you and your spouse. (The life expectancy factors can also be found in IRS publication 590.) Consequently, if your spouse is your designated beneficiary and is more than 10 years younger than you, you can take your RMDs over a longer payout period than under the Uniform Lifetime Table. If your beneficiary is not your spouse, or a spouse who is not more than 10 years younger than you, then you must use the shorter payout period specified in the Uniform Lifetime Table (see below).

Uniform Lifetime Table					
For use by: • **Unmarried owners** • **Married owner whose spouse is not more than 10 years younger** • **Married owner whose spouse is not the sole beneficiary**					
Age	**Distribution period**	**Age**	**Distribution period**	**Age**	**Distribution period**
70	27.4	85	14.8	100	6.3
71	26.5	86	14.1	101	5.9
72	25.6	87	13.4	102	5.5
73	24.7	88	12.7	103	5.2
74	23.8	89	12.0	104	4.9
75	22.9	90	11.4	105	4.5
76	22.0	91	10.8	106	4.2
77	21.2	92	10.2	107	3.9
78	20.3	93	9.6	108	3.7
79	19.5	94	9.1	109	3.4
80	18.7	95	8.6	110	3.1
81	17.9	96	8.1	111	2.9
82	17.1	97	7.6	112	2.6
83	16.3	98	7.1	113	2.4
84	15.5	99	6.7	114	2.1
				115 and over	1.9

Tip: *In order for the younger spouse rule to apply, your spouse must be your sole beneficiary for the entire distribution year. Your spouse will be considered your sole beneficiary for the entire year if he or she is your sole beneficiary on January 1 of the year, and you don't change your beneficiary during the year. In other words, even if your spouse dies, or you get divorced after January 1, you can use the younger spouse rule for that distribution year (but not for distribution years that follow). In the case of divorce, however, if you designate a new beneficiary prior to the end of the distribution year, you cannot use the younger spouse rule (since your former spouse will not be considered your sole beneficiary for the entire year).*

If you have multiple IRAs, an RMD is calculated separately for each IRA. However, you can withdraw the required amount from any one or more IRAs. Inherited IRAs are not included with your own for this purpose. [Similar rules apply to Section 403(b) accounts.] If you participate in more than one employer retirement plan, your RMD is calculated separately for each plan and must be paid from that plan.

Note: *The IRS has issued update life expectancy tables, which will take effect in 2022.*

Should You Delay Your First RMD?

Remember, you have the option of delaying your first distribution until April 1 following the calendar year in which you reach age 72 (or April 1 following the calendar year in which you retire, in some cases).

Note: *The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in late 2019 raised the RMD age from 70½ to 72, effective January 1, 2020. Anyone who turns 72 before July 1, 2021, (and therefore reached age 70½ before 2020), will need to take an RMD by December 31, 2021.*

You might delay taking your first distribution if you expect to be in a lower income tax bracket in the following year, perhaps because you are no longer working or will have less income from other sources. However, if you wait until the following year to take your first distribution, your second distribution must be made on or by December 31 of that same year.

Receiving your first and second RMDs in the same year may not be in your best interest. Since this "double" distribution will increase your taxable income for the year, it will probably cause you to pay more in federal and state income taxes. It could even push you into a higher federal income tax bracket for the year. In addition, the increased income may cause you to lose the benefit of certain tax exemptions and deductions that might otherwise be available to you. So the decision of whether to delay your first required distribution can be important, and should be based on your personal tax situation.

What If You Fail to Take RMDs As Required?

You can always withdraw more than you are required to from your IRAs and retirement plans. However, if you fail to take at least the RMD for any year (or if you take it too late), you will be subject to a federal penalty. The penalty is a 50% excise tax on the amount by which the RMD exceeds the distributions actually made to you during the taxable year.

Example: *You own one traditional IRA and compute your RMD for year one to be $7,000. You take only $2,000 as a year-one distribution. Since you are required to take at least $7,000 but have only taken $2,000, your RMD exceeds the amount of your actual distribution by $5,000 ($7,000 minus $2,000). You are therefore subject to an excise tax of $2,500 (50% of $5,000).*

Technical Note: *You report and pay the 50% tax on your federal income tax return for the calendar year in which the distribution shortfall occurs. You should complete and attach IRS Form 5329, "Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts." The tax can be waived if you can demonstrate that your failure to take adequate distributions was due to "reasonable error" and that steps have been taken to correct the insufficient distribution. You must file Form 5329 with your individual income tax return, and attach a letter of explanation. The IRS will review the information you provide and decide whether to grant your request for a waiver.*

Can You Satisfy the RMD Rules with the Purchase of an Annuity Contract?

Your purchase of an annuity contract with the funds in your IRA or retirement plan satisfies the RMD rules if all of the following are true:

- Payments are made at least yearly
- The annuity is purchased on or before the date that distributions are required to begin
- The annuity is calculated and paid over a time period that does not exceed those permitted under the RMD rules
- Payments, with certain exceptions, do not increase

If you participate in a 401(k) (or similar plan) or an IRA, you may also be able to use up to 25% of your account balances (up to a maximum of $135,000 from all accounts, indexed for inflation) to purchase a qualifying longevity annuity (or QLAC). The value of the QLAC is disregarded when you calculate the amount of RMDs you are otherwise required to take from your account each year. Payments from the QLAC can be delayed up to age 85, and are treated as satisfying the RMD rules when paid. The rules can be complicated, and QLACs are not right for everyone, so be sure to consult a qualified professional for further information.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. It is important to understand that purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits than those available through the tax-deferred retirement plan.

Annuity guarantees are subject to the claims-paying ability and financial strength of the annuity issuer.

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Tax Considerations

Income tax

Like other distributions from traditional IRAs and retirement plans, RMDs are generally subject to federal (and possibly state) income tax for the year in which you receive the distribution. However, a portion of the funds distributed to you may not be subject to tax if you have ever made after-tax contributions to your IRA or plan.

For example, if some of your traditional IRA contributions were not tax deductible, those contribution amounts will be income tax free when you withdraw them from the IRA. This is simply because those dollars were already taxed once. You should consult a tax professional if your IRA or plan contains any after-tax contributions.

Your distribution may also be income-tax-free if it is a qualified distribution from a Roth 401(k), 403(b), or 457(b) account. Generally, an RMD is qualified if your Roth account satisfies a five-year holding period requirement. If your RMD is not qualified, then generally only the portion of the RMD paid from your Roth account that represents earnings will be taxable to you — your own contributions to the Roth account are returned tax free. Because RMDs are paid after you turn age 72, or after your death, they are not subject to early distribution penalties. Income taxes on RMDs paid to your beneficiary after your death are generally calculated in the same manner as if the payments were made to you.

Caution: *Taxable income from an IRA or retirement plan is taxed at ordinary income tax rates even if the funds represent long-term capital gain or qualifying dividends from stock held within the plan. Note that there are special rules for capital gain treatment in some cases on distributions from employer-sponsored retirement plans.*

Estate tax

You first need to determine whether or not the federal estate tax will apply to you. If you do not expect the value of your taxable estate to exceed the federal applicable exclusion amount then federal estate tax may not be a concern for you. However, state death (or inheritance) tax may be a concern. In some cases, your assets may be subject to more than one type of death tax — for example, the generation-skipping transfer tax may also apply. Consider getting professional advice to establish appropriate strategies to help reduce and possibly eliminate your future estate tax liability.

For example, you might reduce the value of your taxable estate by gifting all or part of your required distribution to your spouse or others. Making gifts to your spouse can sometimes work well if your taxable estate is larger than your spouse's, and one or both of you will leave an estate larger than the applicable exclusion amount. This strategy can provide your spouse with additional assets to better utilize his or her applicable exclusion amount, thereby minimizing the combined estate tax liability of you and your spouse. Be sure to consult an estate planning attorney, however, about this and other possible strategies.

Caution: *In addition to federal estate tax, your state may impose its own estate or death tax. Consult an estate planning attorney for details.*

Inherited IRAs and Retirement Plans

Your RMDs from your IRA or plan will cease after your death, but your non-spouse designated beneficiary (or beneficiaries) will then typically be required to liquidate the account within 10 years. A spouse beneficiary may generally roll over an inherited IRA or plan account into an IRA in the spouse's own name, allowing the spouse to delay taking additional required distributions until he or she turns 72.

As with required lifetime distributions, proper planning for required post-death distributions is essential. You should consult an estate planning attorney and/or a tax professional.

Note: *Legislation passed in December 2019 dramatically changed the RMD rules for IRA assets inherited by most non-spouse beneficiaries. A financial or estate-planning professional can help you determine how the new rules may affect your estate-planning strategies.*

IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances.

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